Brazil after the Presidential Elections 2014

Jorge Arbache
University of Brasilia

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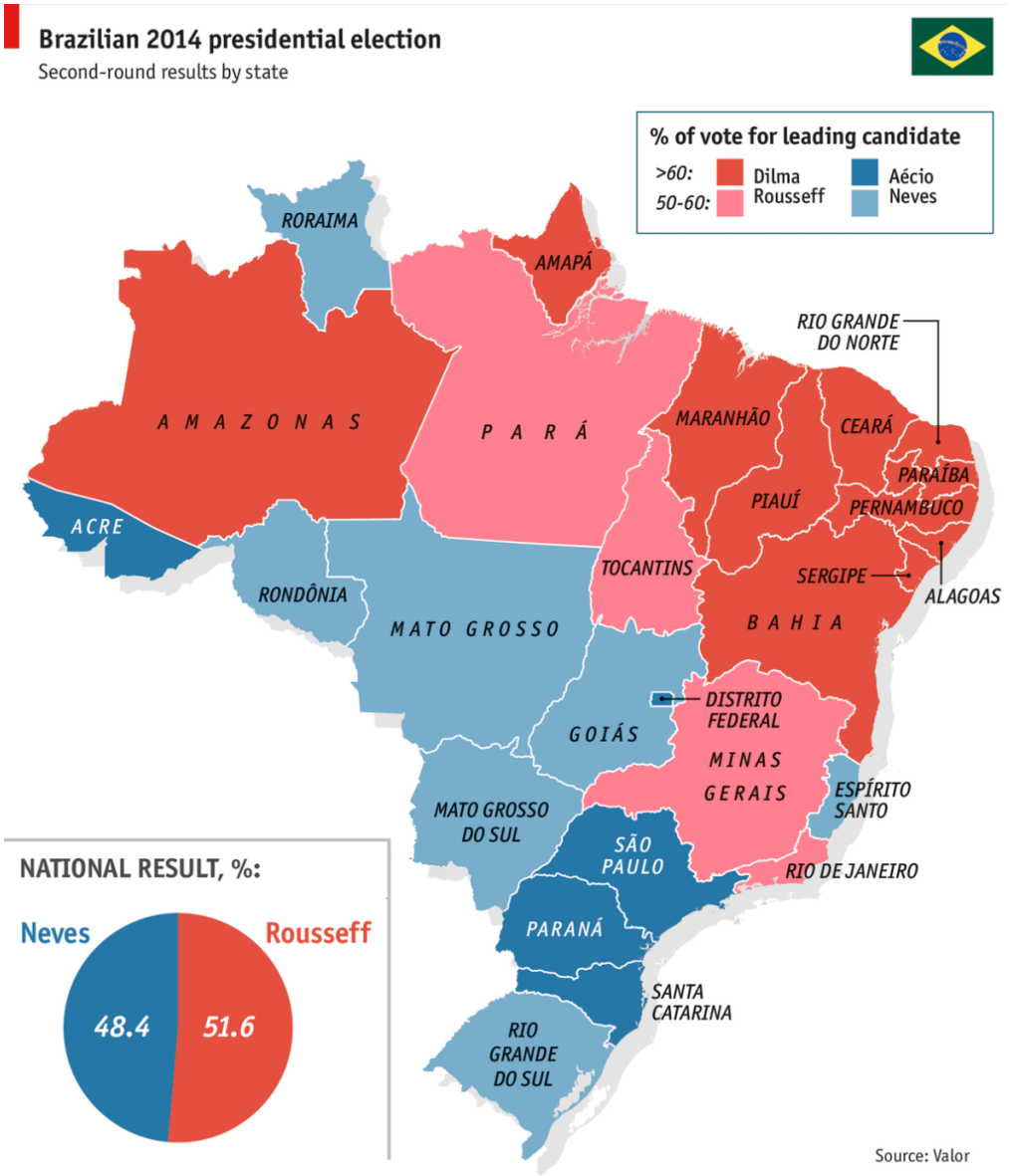
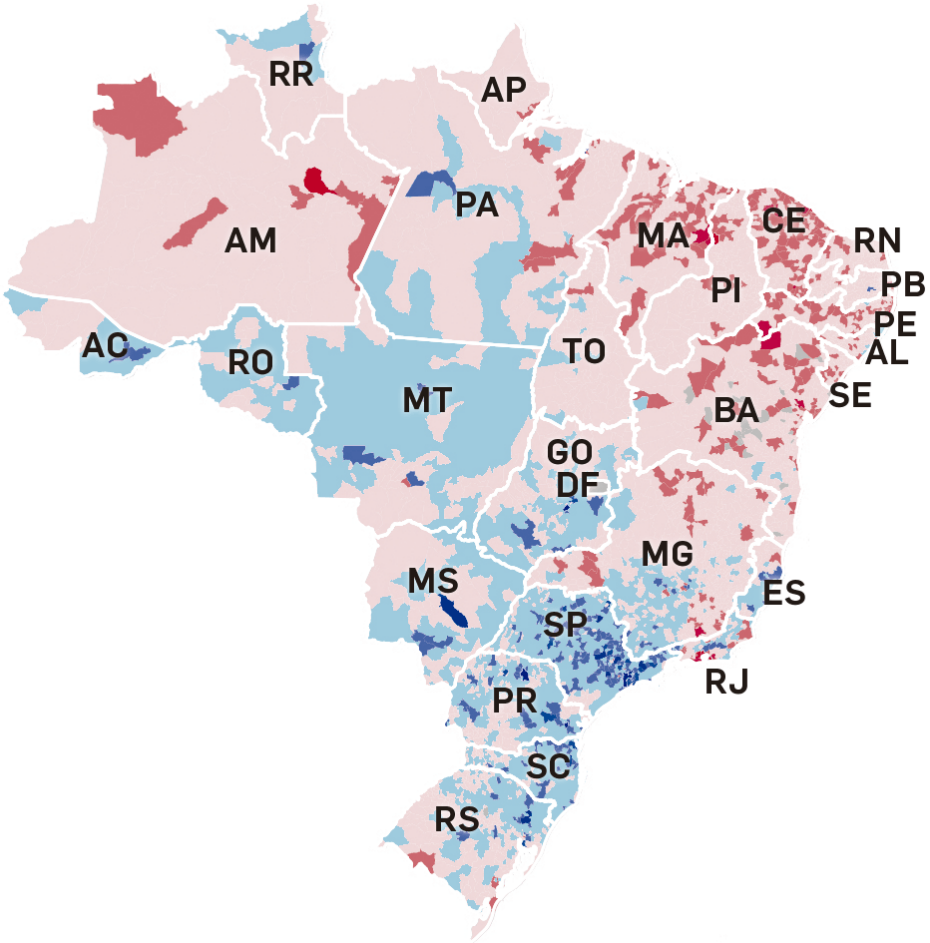
- A bitter electoral campaign
- Slimmest victory in Brazilian electoral history
  - Roussef: 51.6%
  - Neves: 48.4%

Some say the country is divided by region…



…but the results at the district level say something else



- Narrow margin may be good for Brazilian democracy

"In history, sometimes, tight results have produced stronger and faster changes than wide victories (…) I am well aware that I am returning to presidency in order to achieve the greatest changes that Brazilian society demands."

Victory speech, President Roussef, Oct 26, 2014

Why PT won?

- A tentative explanation
  - Low unemployment: 4.9%
  - Rising real wages
  - Falling income inequality

- President Roussef has defined the next term priorities
  - Political reform
  - Tax reform
  - Bureaucracy reform
  - Economic growth

Next Congress political profile

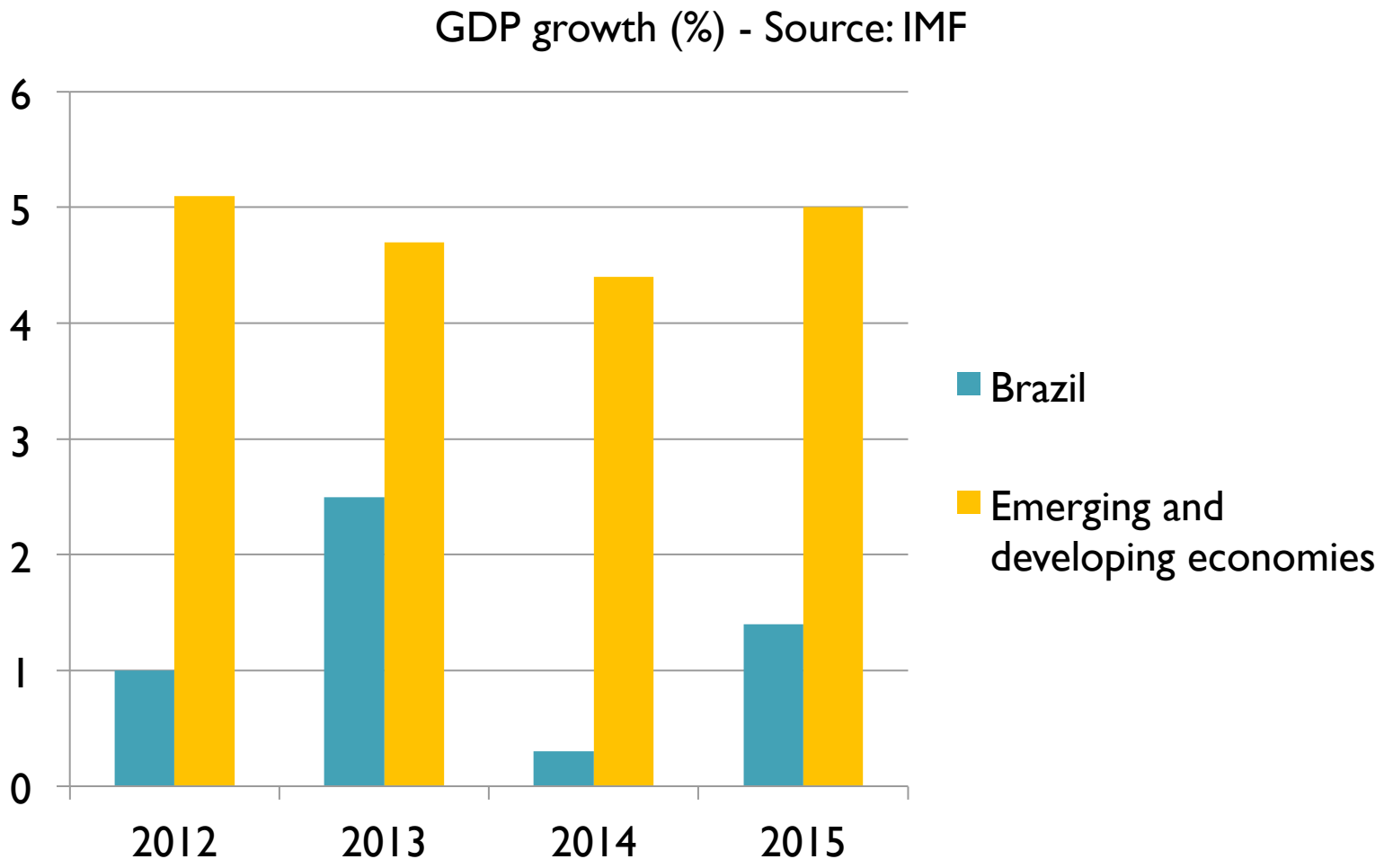
- Government kept large margin in Congress → out of the 28 parties with representation in Congress, 23 will support the Government, but the coalition will be far more fragmented

- PT (government) – 70 seats out of 504; PMDB (main coalition party) – 66 seats; PSDB (main opposition party) – 55 seats

- Congress more conservative and more sectoral biased – e.g. 256 MPs support the rural agenda

- Opposition empowered by narrow electoral margin and by the presence in Congress of highly experienced politicians

Several economic challenges ahead



- End of 'low hanging fruit' growth model based on *consumption, cheap credit, government spending and commodity boom*
- Growth will have to rely more on productivity and efficiency gains

- *Low unemployment–low growth* "paradox" is partly explained by the combination of demographic transformation and highly labor intensive service sector boom

- Three ‘anomalies’ are hampering long term growth
  - Rapid demographic transformation – fertility rate – 1.79; working age-population already decelerating
  - Very large, low productivity service sector – 70% of GDP
  - Early deindustrialization – manufacturing 13% of GDP

- **Short term challenges**
  - Restore the market confidence
  - Keep fiscal accounts under control – but tiny margin for maneuver
    - Primary surplus Jan-Sept 2014: -0.52% of GDP from 2.5% in Jan-Sept 2011
  - Fight inflation: 6.75% in the last 12 months
    - Need to realign regulated prices (gas, electricity…)
    - Inflation pressures shifting from non-tradable to tradable goods due to exchange rate depreciation

- Keep BoP deficit under control: -3.7% of GDP in the last 12 months
  - Rising BoP deficit and normalization of US monetary policy likely to depreciate exchange rate even further (and perhaps impact interest rate)
- Keep investment grade rating of Brazil's public debt

- **Medium term challenges**
  - Increase labor productivity, competitiveness of manufacturing sector and investment

- That will require
  - Focus on the knowledge agenda (education, vocational training, R&D, C&T)

- Infrastructure boost
- Service sector modernization
- More integration of Brazil into the international economy
- Focus on business environment e.g. tax framework
- More transparent, predictable regulatory framework

- Many believe the MoF nomination will be crucial for the success of whatever economic policy
- But many also say that the the facto MoF is President Roussef

Where growth can come from?

- Huge room for efficiency gains
- Large infrastructure agenda (PAC), PPPs, privatization
- Industrialization of comparative advantages: agriculture, minerals, pre-salt, biodiversity, clean energy, airspace
- Rising middle class
- Regional market

Major risks

- Postponement or delay of reforms
- Uncertainties in the international economy
  - Deceleration of China
  - Sluggish growth in Japan and Europe
  - USA's monetary policy
- Global macro imbalances, protectionism and asymmetric trade policies
- Environmental changes

Thank You

jarbache@gmail.com